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VIA E-MAIL & FIRST-CLASS MAIL

**PUBLIC DOCUMENT** 

Ms. Gloria Blue Executive Secretary Trade Policy Staff Committee Office of the U.S. Trade Representative 600 17th Street, NW Washington, D.C. 20508

Re: Steel Industry Section 201 Investigation (ITC Inv. No. TA-201-73) ---- Comments on the

Comments of Other Parties on the International Trade Commission's Remedy

Recommendation

Dear Ms. Blue:

Pursuant to the notice of the Trade Policy Staff Committee, Office of the United States Trade Representative, published in the Federal Register (66 Fed. Reg. 67349 (Dec. 28, 2001)), we hereby submit on behalf of Kawasaki Steel Corporation, Nippon Steel Corporation, NKK Corporation, and Sumitomo Metal Industries, Ltd. ("Japanese Respondents"), comments on the comments of other parties to the remedy recommendations of the United States International Trade Commission.

This is a <u>Public Document</u> that contains NO business confidential information and no business confidential version of this filing exists. Please contact the undersigned if there are any questions or if we may provide more information.

Respectfully submitted,

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## OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE, TRADE POLICY STAFF COMMITTEE

## **PUBLIC DOCUMENT**

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COMMENTS OF KAWASAKI STEEL CORPORATION, NIPPON STEEL CORPORATION, NKK CORPORATION, and SUMITOMO METAL INDUSTRIES, LTD. ON THE COMMENTS OF OTHER PARTIES TO THE REMEDY RECOMMENDATION OF THE U.S. INTERNATIONAL TRADE COMMISSION REGARDING IMPORT RELIEF UNDER SECTION 203 OF THE TRADE ACT OF 1974 FOR

WELDED TUBULAR PRODUCTS OTHER THAN OCTG (CATEGORY 20)

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### I. INTRODUCTION

Two things are clear after reviewing the written comments of other parties on what action the President should take under Section 203 of the Trade Act of 1974 with regard to imports of welded tubular products other than OCTG (i.e., Category 20 products). First, no parties are objecting to the exclusions recommended by the Commission from the remedy on Category 20 products (that is, products excluded from the December 2001 antidumping duty order on Certain Welded Large Diameter Line Pipe from Japan ("LDLP")). And second, the proposal by domestic parties that the appropriate remedy is a tariff set at 30% should be flatly rejected by the Administration. Rather, the most appropriate remedy within the meaning of the statute and the WTO Agreements, and supported by the record in this investigation, is a country-specific tariff-rate quota that excludes the antidumping exclusions and has a short supply mechanism.

- II. REMEDY COMMENTS FILED WITH USTR CONFIRM THAT
  ANY REMEDY ON CATEGORY 20 MUST EXCLUDE THE LDLP
  PRODUCTS THAT THE ITC RECOMMENDED FOR
  EXCLUSION
  - A. No Party Has Objected To The ITC's Recommendation to Exclude From The Category 20 Remedy The LDLP Products That Were Excluded From the Concurrent Antidumping Investigation

No party has objected to the exclusion of the products specifically excluded by the majority of Commissioners from their remedy recommendation on welded tubular products other than OCTG.<sup>1</sup> These products are the same products that were excluded from the December 2001 antidumping duty order on large diameter line pipe.<sup>2</sup> Because the majority of commissioners

Views on Remedy of the Commission, 397, notes 123 and 124.

See Antidumping Duty Order: Welded Large Diameter Line Pipe From Japan, 66 Fed. Reg. 66,368 (December 6, 2001).

specifically excluded these products from their remedy recommendation,<sup>3</sup> any party that has an objection to these exclusions would have indicated their objection in their comments filed with USTR on January 4, 2002. No such objections were raised. Instead, the majority of comments reflect support for the Commission's recommendation that these products be excluded from any remedy.<sup>4</sup> In particular, BP America noted the strong support of the oil and gas industry for these exclusions, stating:

{C} ategories of LDLP products that are not available from U.S. producers should be excluded, as recommended by the ITC and as requested by BP... {These exclusions} are supported by ExxonMobil, Shell, and Phillips; expressly supported by a majority of U.S. welded LDLP producers (and opposed by none)...

Even the comments submitted on behalf of domestic producers by Schagrin Associates contain no objections to these exclusions. Indeed, in a previous filing with the Commission, Schagrin Associates specifically indicated that its large diameter line pipe producing clients **do not object** to exclusion of these large diameter line pipe products, which they do not produce. No other domestic producers have filed comments raising objections to these exclusions. Thus, the Administration should adopt the recommendation of the majority of Commissioners and exclude these products from its remedy.

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Views on Remedy of the Commission, 397, notes 123 and 124.

See e.g., Comments on behalf of BP America Inc. (filed by Squire Sanders) at 1-2; see also Comments on behalf of the European Steel Tube Association (filed by Barnes, Richardson & Colburn) at 18-19; Comments on behalf of The Williams Companies, Inc. and Coflexip Stena Offshore, Inc. (filed by Barnes, Richardson, and Colburn) at 6; Comments on behalf of the Korea Iron and Steel Association (filed by Kaye Scholer) at 5; Comments of CONFAB, S.A. (filed by White & Case LLP) at 1 (asking for exclusions of products that cover and exceed the exclusions proposed by the Commission).

See e.g., Comments on behalf of BP America Inc. (filed by Squire Sanders) at 1-2.

Domestic Producers' Posthearing Remedy Brief: Carbon and Alloy Tubular Products, Nov. 15, 2001, at 14-15 (provided in relevant part as Attachment 1 to Japanese Producers' Request for Product Exclusions, Dec. 5, 2001).

B. The Presidential Proclamation Should Provide That LDLP Products Excluded from the New Antidumping Order in the Future Will be Automatically Excluded from Remedy for Welded Tubular Products

In the event additional products are excluded from the antidumping order on *Certain Welded Large Diameter Line Pipe (LDLP) From Japan* in the future, the Presidential Proclamation should specifically indicate that those products also will be automatically excluded from the 201 remedy on welded tubular products.<sup>7</sup> This antidumping order can be distinguished from any other steel AD/CVD orders already in place, because the investigation ran concurrent with the Commission's 201 steel investigation such that the implementation of both remedies will occur during the same time period.<sup>8</sup> Moreover, including such a provision in the Presidential Proclamation is particularly warranted for LDLP, because these are by their nature unique specialty products rather than commodity steel products.

Failure to include such a provision in the Presidential Proclamation will have direct adverse effects on upcoming oil and gas pipeline projects. The LDLP market reports of Spears & Associates attached to the Japanese Respondents' prior submissions dramatically illustrate the large number of pipeline projects that are already in the regulatory approval process and slated to commence construction within the next 2-5 years. For easy reference, we have provided copies of the relevant charts excerpted from these reports in the attached **Exhibit 1** 

For a full discussion of the exclusions and the rationale for automatically excluding future exclusions from the antidumping order, please see the January 4, 2002 Comments of the Japanese producers at Exhibit 1.

The LDLP order was published only one day before the Commission's remedy vote.

Each of these pipelines will require made-to-order LDLP having a unique combination of outer diameter, grade, length, wall thickness, and supplemental specifications. Some of the upcoming projects, such as Blue Atlantic and the Alaska Natural Gas Pipeline, will require arctic grade or deep sea LDLP that cannot be made in the United States—and which may ultimately require proprietary grades and technical specifications made only in Japan. Because LDLP specifications for many of the upcoming pipeline projects are not yet finalized, the LDLP required for these projects is **not** reflected in the exclusions from the recent antidumping case. Depending on the final engineering specifications for such future projects, it may be necessary to request a formal "changed circumstances review" under which the Department of Commerce ("DOC") may establish that LDLP having particular specifications not at issue in the antidumping investigation should be excluded from the antidumping order because it is not available domestically. It would be utterly irrational to waive antidumping duties because an LDLP product is unavailable domestically, but then apply a 201 remedy to the same product. Such a result would also threaten the viability of important future pipeline projects.

Because the statute does not provide for a separate "changed circumstances" proceeding with respect to remedies applied under Section 203, language must be inserted into the Presidential Proclamation incorporating future exclusion determinations made by DOC in any changed circumstance review of the LDLP antidumping order. After reciting the list of LDLP products to be excluded from the remedy on welded tubular products, the Presidential Proclamation could simply including language stating:

See, e.g., Testimony of Frank McWilliams, Product Manager, Corus America Inc., at ITC 201 Injury Hearing held October 1, 2001 (page 2669), stating:

<sup>{</sup>P}ipe for projects is unique, and {has} many supplemental technical requirements beyond API specifications. This includes more stringent chemical, mechanical, and dimensional tolerances, and for this reason project customers deal directly with the pipe manufacturer to ensure strict compliance with their technical requirements.

In the event that additional products are excluded from the December 6, 2001 antidumping order covering *Certain Welded Large Diameter Line Pipe From Japan* in the future, such products will be also excluded from this tariff-rate quota.

## III. THE ADMINISTRATION SHOULD REJECT THE STRAIGHT TARIFF PROPOSED BY COMMISSIONERS BRAGG AND DEVANEY AND ENDORSED BY THE U.S. INDUSTRY

A. The President is Bound by the Commission's Determination that the U.S. Industry is Threatened with Serious Injury, but is not Currently Injured

The U.S. industry completely ignores that a Commission majority reached a finding based on **threat** of serious injury and instead reargues the injury issue, thereby asking in effect that the Administration make its own independent injury finding.<sup>10</sup> Such a request is contrary to the statute and to international law.

The Commission is mandated by statute to determine whether the U.S. industry is being seriously injured or threatened with serious injury by increased imports. See 19 U.S.C. §2252(b)(1)(A). The Commission then "recommend{s} the action that would address the serious injury, or threat thereof, to the domestic industry and be most effective in facilitating the efforts of the domestic industry to make a positive adjustment to import competition." 19 U.S.C. §2252(e)(1). After receiving the Commission's report and recommendation, "the President shall take all appropriate and feasible action within his power which the President determines will facilitate efforts by the domestic industry to make a positive adjustment to import competition and provide greater economic and social benefits than costs." 19 U.S.C. §2253(a)(1)(A).

Indeed, Section 203 is entitled "Action by President after determination of import injury" again emphasizing that it is not the President who decides injury.

Similarly, the WTO Agreement on Safeguards provides that "A Member may apply a safeguard measure only following an investigation by the competent authorities of that Member pursuant to procedures previously established and made public...." Art. 3.1. Here, the Commission is the competent authority that was entrusted with the investigation. Thus, there is no need (or authority) for the President to re-visit the injury issue, and the Administration should reject the U.S. industry's attempt to change the Commission's decision that the U.S. industry is threatened with serious injury to a decision of current serious injury. <sup>11</sup> Instead, the Administration should focus on what remedy is appropriate given that the Commission found only a threat of serious injury for Category 20 products, and not current injury.

- B. Unlike Tariffs, the Tariff Rate Quota Proposed by the Majority of Commissioners will, with some Modifications, Facilitate the Domestic Industry's Efforts to Make a Positive Adjustment to Import Competition and Provide Greater Economic and Social Benefits than Costs
  - 1. A straight tariff is an inappropriate and unjustifiable remedy

The U.S. industry's attempt to have the Administration revisit the injury determination is perhaps understandable in view of the draconian tariffs they propose, tariffs which cannot be justified in view of the Commission's threat of serious injury determination. Indeed, the majority of Commissioners specifically rejected tariffs for welded tubular products other than

Schagrin Associates Jan. 4, 2002 Comments on Carbon and Alloy Welded Tubular Products at 4-

Views on Injury of the Commission at 26 ("The Commission further determines that: (1) welded pipe other than OCTG is being imported into the United States in such increased quantities as to be a substantial cause of the <u>threat of serious injury</u> to the domestic industry....") (emphasis added).

OCTG. They stated that "{a} straight tariff would affect all imports, even those at levels we have found did not cause serious injury." In addition, the Commission said that "the 50 percent tariff requested by domestic producers exceeds the amount necessary to prevent serious injury and would cause undue hardship to importers." According to the Safeguards Agreement, "{a} Member shall apply safeguard measures only to the extent necessary to prevent or remedy serious injury and to facilitate adjustment." Art. 5.1 Clearly, and as recognized by the Commission, a straight tariff would exceed what is necessary to prevent serious injury and would not provide greater economic and social benefits than costs, even at the 30 percent level recommended by Commissioners Bragg and Devaney and endorsed by the U.S. industry, because it would be excessive and unduly restrictive. Accordingly, a straight tariff is inappropriate and unjustifiable in view of the Commission's majority threat of injury finding.

## 2. A tariff-rate quota is the most appropriate remedy with certain modifications

As recommended by the Commission, "a tariff-rate quota will best address the threat of serious injury to the welded pipe industry and be most effective in facilitating positive adjustment of that industry to import competition. We believe that the tariff-rate quota we are recommending is at a level that will allow imports continued access to the U.S. market, thereby minimizing market disruption and consumer costs." The import level set by the Commission is the calendar year 2000 level, plus an additional amount each year. The U.S. industry claims to

Majority Decision at 402 (emphasis added); see also Vice Chairman Okun's Views at 459 (stating, "I do not view increased tariffs as an appropriate form of remedy, as the additional duties are applied to all imports, regardless of volume.").

Majority Decision at 402.

Majority Decision at 402.

See Majority Decision at 403.

be incredulous at the Commission's quota recommendation, and argues that "the majority's remedy recommendation would be inadequate to remedy the serious injury to the domestic industry." The U.S. industry is absolutely correct that the remedy recommendation does not remedy serious injury but ignores the critical fact that serious injury has not occurred.

Rather, the Commission's recommendation is based merely on the **threat** of serious injury, and appropriately is intended "to restrain but not preclude growth in imports. ."<sup>17</sup> As stated above, "{a} member shall apply safeguard measures only to the extent necessary to prevent or remedy serious injury and to facilitate adjustment." WTO Safeguards Agreement, Art. 5.1. Accordingly, the relief requested by the U.S. industry is plainly excessive in view of the Commission's threat-based injury determination and should be rejected by the Administration.

The domestic producers further accuse the Commission of "fail {ing} to consider the interrelationship between the impact of its remedy recommendation for flat-rolled products and its recommendations for welded pipe and fittings." This accusation is totally without merit as the Commission discussed this issue in its determination and specifically addressed the U.S. industry's concern about product-shifting. Further, the U.S. industry does not provide any economic analysis to support its argument. The Commission stated "in order to discourage product shifting, the above-quota we recommend on welded pipe mirrors the tariff level we recommend be imposed for flat-rolled carbon steel products." Thus, the Commission did consider product-shifting and the interplay between the remedies on the different products.

Schagrin Associates at 15

Majority Decision at 403.

Schagrin Associates at 15.

Majority Decision at 403.

Although the Commission considered product shifting, it overlooked the ideal method of preventing product-shifting without resorting to excessive or distortive remedies as advocated by domestic producers. The most effective way for the Administration to prevent product-shifting is to ensure that its tariff-rate quota on welded tubular products <sup>20</sup> and its quota<sup>21</sup> on flat-rolled products are allocated on a country-specific basis. Those remedies would prevent product shifting and also, in the case of welded tubular products, "avoid creating supply shortfalls during the period of relief..."

As fully discussed in the January 4, 2002 comments of Japanese producers, the following modifications should be made to the tariff-rate quota remedy recommended by the Commission:

- 1. Exclude products recommended by the Commission to be excluded (that is, the products excluded from the antidumping duty order on LDLP from Japan) and provide that any products excluded from the antidumping duty order in the future will be automatically excluded from the 201 remedy;
- 2. Provide for a short supply provision;
- 3. Make the tariff-rate quota country-specific; and
- 4. Set the above-quota tariff at 10%<sup>23</sup> for year 1, 6% for year 2, and 3% for year 3 (the same tariffs used in the *Steel Wire Rod* case).<sup>24</sup>

See Japanese Producers' January 4, 2002 Comments at Exhibit 3.

The Administration should reject the tariffs proposed by the Commission for flat-rolled products. The only remedy, if any, appropriate for flat rolled products is a country-specific anti-surge quota. *See* Jan. 4, 2002 Comments of Japanese Respondents on Carbon Finished Flat-Rolled Products (Executive Summary).

Majority Decision at 402 (The Commission added "{e}stablishment of a single quota for welded pipe could result in the quota being filled entirely by imports of commodity products. This could result in short supplies of specialty products which may not necessarily be readily obtained domestically.").

The ITC's COMPAS results show that a tariff rate quota with a tariff at 10% is binding and the results do not change when the tariff is increased to 15%, 20%, or 25%. See Table TUBULAR-ALT3-9 (pages Tubular-10 and Tubular-21), EC-Y-051 (Attachment 4) of ITC's Jan. 9, 2002 Response to USTR's Jan. 3, 2002 Request for Additional Information. As there is no effect when the tariff rate is higher than 10%, the tariff should be set at 10% for year 1.

Japanese Producers' discuss these modifications as well as the merits of a tariff-rate quota at length in their January 4, 2002 Comments, incorporated herein by reference.

With these important modifications, a tariff-rate quota is the most appropriate remedy because it provides relief that is most effective in facilitating adjustment, while sufficiently tailored to avoid serious social and economic costs and market distortion.

## IV. CONCLUSION

In recognition of the support (or lack of objection) of interested parties to the exclusions recommended by the Commission, the Administration should adopt those exclusions and should provide that in the event additional products are excluded from the LDLP antidumping duty order, those products will automatically be excluded from the 201 remedy.

In addition, the Administration should reject the U.S. industry's attempt to have the Administration make its own injury determination and accept the threat of serious injury determined by the Commission.

Finally, the Administration should impose a tariff-rate quota as recommended by the majority of the Commission, with the modifications set forth above.

Respectfully Submitted,

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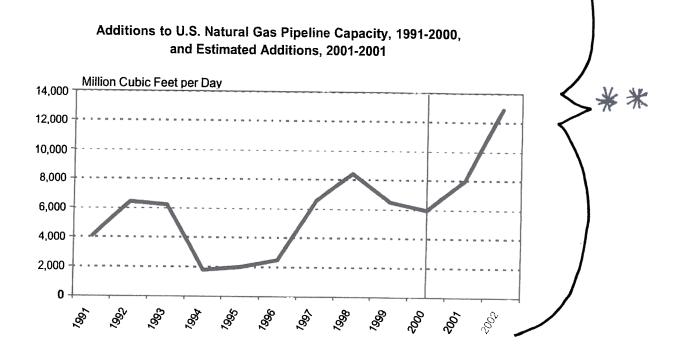
## ARENT FOX KINTNER PLOTKIN & KAHN, PLLC

Counsel for Kawasaki Steel Corporation Nippon Steel Corporation NKK Corporation and Sumitomo Metal Industries, Ltd.

# **EXHIBIT**

1

Separately, the EIA has estimated that about 8.0 billion cubic feet per day (bcfd) and 13.0 bcfd of gas pipeline capacity will be added in 2001 and 2002, respectively, up from about 6.0 bcfd in 1999 and 20008. See the following graph.



Offshore pipeline construction, which accounts for about 20% of the total, is poised to accelerate sharply in 2001. Over the past 18 months the number of US rigs drilling offshore has risen to its highest level since 1985 in response to high oil and natural gas prices. Both shallow-water and deepwater pipelay activity is expected to increase driven by the need to hook up new supply sources to the pipeline grid.

Spears and Associates

<sup>8 &</sup>quot;US Natural Gas Markets: Recent Trends and Prospects for the Future", May 2001

# The US Large Diameter Line Pipe Market Supplemental Report John Spears Spears and Associates, Inc.

Concerning the methodology used to forecast US demand for large diameter line pipe in 2002:

Petitioners have asserted that the respondent's forecast of 2002 large diameter line pipe demand is predicated on all current projects going forward. This is not the case. The pipeline construction data relied on for the 2002 large diameter line pipe demand forecast came from a March 2001 natural gas pipeline construction database maintained by the DOE 1. The DOE natural gas pipeline construction database registers projects at the time they are announced by companies or reported in various trade journals. Since March 2001 a number of new natural gas pipeline construction projects, including the Ruby and Sonoran projects, as well as other projects scheduled for 2002 and beyond, have been made public. Significantly, these new natural gas pipeline construction projects were not in the DOE database in March and thus were not a part of the methodology used in the forecast of 2002 US demand for large diameter line pipe.

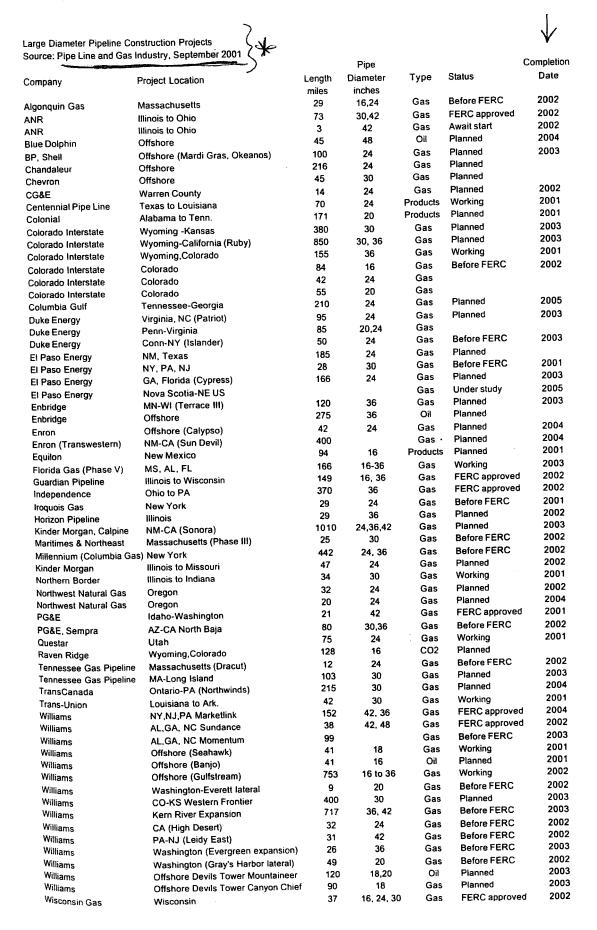
The new projects that were not included in the large diameter line pipe demand forecast represent a significant part of <u>currently</u> expected activity in 2002. As of March 2001 the DOE natural gas pipeline construction database included projects totaling about 13.0 billion cubic feet per day of incremental gas pipeline throughput capacity which were scheduled for completion in 2002<sup>2</sup>. The following table presents natural gas pipeline construction projects announced since March, 2001 which are scheduled for completion in 2002:

project	Pipeline	status	Date	miles	Size (inch)	Add. Capacity (mmcfd)
Jonah Opal Loop Project	Jonah Gas Gathering Co	APPROVED	2002	50.3	` 20	400
Kern High Power Lateral	Kern River Transmission Co	BEFORE FERC	2002	32.0	24	275
Kern Moapa Lateral	Kern River Transmission Co	BEFORE FERC	2002	3.5	16	219
Line Section 1 Expn	Williston Basin Interstate PL	ANNOUNCED	2002	80.0	16	55
NWPL Gray Harbor	Northwest Pipeline Co	BEFORE FERC	2002	48.9	20	160
Possum Point Lateral	Dominion Resource Trans Co	ANNOUNCED	2002	14.0	20	300
SONATNorth System Expn	Southern Natural Gas Co	BEFORE FERC	2002	5.0	24	33
Tenneco Dracut Expn	Tennessee Gas Pipeline Co	BEFORE FERC	2002	12.0	24	200
TPL 2002 System Expn	Tuscarora Pipeline Co	<b>BEFORE FERC</b>	2002	14.0	16	94
Transco Leidy East Expn	Transcontinental Gas P L Co	BEFORE FERC	2002	31.0	42	126
				290.7		1862

These new large diameter projects represent a total of over 290 miles of pipeline construction and 1.86 billion cubic feet per day of incremental pipeline throughput capacity that were not on record in March. In addition, experience suggests that other natural gas pipeline construction projects targeting completion in 2002 can be expected to be announced in the coming months. These projects are likely to

Spears and Associates

US Natural Gas Markets: Recent Trends and Prospects for the Future, May 2001, Figure 10, pg. 18 lbid.



Spears and Associates